In computing taxable income, corporations, with certain exceptions, may deduct dividends received from other Canadian taxable corporations and also from certain non-resident affiliates. Business losses may be carried back one year or forward five years and deducted in computing taxable income. Corporations may also deduct donations to charitable organizations up to a maximum of 20% of their income.

The general rates of tax payable by corporations on their taxable income are as follows: 1972, 50%; 1973, 49%; 1974, 48%; 1975, 47%; 1976 and subsequent years, 46% except that starting January 1, 1973 the effective rate for manufacturing and processing profits is 40%. These rates of tax are reduced by 10 percentage points on income earned in a province. This "provincial abatement" is provided to make room for provincial income taxes. At the present time, provincial rates of corporate income tax range from 10% to 13%.

A "small business deduction" reduces the rate of tax on certain business income to 25%. This concession is restricted to Canadian corporations which are not controlled by a non-resident or by a Canadian public corporation. It applies only to income from an active business carried on in Canada and not to investment income. The maximum amount of taxable income on which the deduction may be calculated is $100,000 in any one year. A corporation is entitled to this deduction only until it has accumulated $500,000 of taxable income commencing with taxation years starting after 1971. Starting January 1, 1973, this 25% rate is reduced to 20% for Canadian manufacturing and processing profits.

A corporation that qualifies as an "investment corporation" pays tax at a rate of only 25%. This rate is also reduced by the provincial abatement.

The investment income (other than dividends) of a private corporation is subject to the general rate of tax (i.e. 50% in 1972 becoming 46% in 1976 less the provincial abatement) but an amount not exceeding 25% of this income is refunded when dividends are paid to shareholders.

Dividends received by a Canadian corporation from other Canadian corporations and certain dividends from foreign corporations are deductible in computing its taxable income. Dividends received by a private corporation from portfolio investments are subject to a special 33⅓% tax but this is refunded when dividends are paid to shareholders.

A corporation may elect to pay a special 15% tax on its 1971 undistributed income on hand. Dividends received from this tax-paid undistributed income are not included in the income of the receiving shareholder but the amount of the dividend will reduce the adjusted cost basis of the shares for capital gains tax purposes. Dividends paid from the untaxed half of a corporation's capital gains are also excluded from the income of the recipient shareholders but with no similar reduction in the adjusted cost base of the shares for capital gains tax purposes.

Special rules are provided for the taxation of special-purpose companies such as mutual fund corporations, life insurance companies, non-resident-owned investment companies and co-operatives.

In addition to the reduction equal to 10% of taxable income earned in a province, a corporation may reduce its tax by a credit for taxes paid to foreign governments on foreign source income. This credit may not exceed the Canadian tax related to such income. A corporation may also deduct from its tax an amount equal to two thirds of a provincial tax on income from logging operations not exceeding 6⅔% of its income from logging operations in the province. (At present only Quebec and British Columbia impose logging taxes.)

After May 6, 1974, provincial levies on mineral or petroleum resources are not allowed as a deduction from income, and there is an extra federal tax abatement on production profits at the rate of 15% for minerals and at the rates of 10% in 1974, 12% in 1975 and 15% for 1976 and subsequent years for petroleum.

Corporations are required to pay their tax by monthly instalments throughout their taxation year. Any balance of tax remaining has to be paid by the last day of the second month following the close of the taxation year, except for corporations claiming the small business deduction, which have until the last day of the third month following the year to pay that balance. The return for the year must be filed by the last day of the sixth month following the close of the taxation year.

Taxation of non-residents. An individual or corporation not resident in Canada is liable for Canadian income tax on income from employment or from carrying on business in Canada